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Generalized System of Preferences February 1985

Background: The generalized system of preferences (GSP) is a program that eliminates duties on a range of products imported into the US from developing countries (LDCs). Its intent is to assist LDC economic development by promoting trade rather than aid. By eliminating US import duties on about 3,000 product categories, the GSP is designed to make LDC products more competitive in our market. In 1983, $10.8 billion worth of imports from LDCs entered the US duty free under the GSP. Although this represents only a little more than 4% of total US imports, it accounted for nearly 15% of dutiable imports from those developing countries eligible for the program.

Discussions regarding a system of tariff preferences for LDCs began at the first UN Conference on Trade and Development (UNCTAD) in 1964. By 1970 agreement was reached in UNCTAD, and authority for tariff preferences under the General Agreement on Tariffs and Trade (GATT) was obtained in 1971. In 1976 the US became the 19th developed market-economy country to implement a national GSP program. The first US program ran from January 1976 to January 1985. The GSP Renewal Act of 1984 extended the US program for another 8 1/2 years until July 1993. The other major preference givers, the European Community and Japan, also have renewed their GSP programs into a second decade.

Importance to US: The GSP is economically and politically important in US relations with the LDCs. By increasing export opportunities, the program helps to stimulate industrialization, employment, and economic growth. This also benefits the US, as the additional foreign exchange earnings allow the LDCs to buy more US exports and to repay international debts. Lower priced imports benefit US consumers as well. Politically, GSP symbolizes the US commitment to global economic development and is a measure of how the US shares with the other developed countries the costs of promoting development.

Terms of eligibility: The President has designated 114 countries and 26 dependent territories as eligible suppliers under GSP. The President cannot designate as beneficiaries:

- Communist countries that do not receive most-favored-nation tariff treatment and are not members of the International Monetary Fund and GATT;
- Members of OPEC or other countries raising the price of vital commodities to unreasonable levels or withholding such commodities from trade. Under an exemption no longer available, Indonesia, Venezuela, and Ecuador were designated as beneficiaries in 1980 after signing a bilateral, product-specific trade agreement as authorized in the Trade Agreements Act of 1979;
- Countries granting reverse preferences to other developed countries, resulting in a significant adverse effect on US commerce;
- Countries that have nationalized property of US citizens without compensation, negotiation, or arbitration;

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- Countries that do not act to prevent illegal drugs from their country from entering the US;
- Countries that refuse to recognize as binding or fail to enforce arbitral awards in favor of US citizens or corporations made by appointed arbitrators or permanent arbitral bodies;
- Countries that aid, abet, or grant sanctuary to international terrorists; and
- Any country failing to take steps to afford internationally recognized worker rights to its labor force.

Termination of benefits: If a country's per capita gross national product (GNP) exceeds $8,500 in 1985 or subsequent years, its GSP benefits will be terminated after a 2-year phaseout. The $8,500 figure is indexed to one-half the increase in nominal US GNP.

Product coverage: Nearly 3,000 tariff categories are eligible for duty-free treatment. Included are selected agricultural items, most wood and paper products, certain chemicals, and a broad range of manufactured and semimanufactured articles. Several groups of products were legally excluded to avoid a negative impact on domestic industries. Ineligible products include textile and apparel articles, watches, certain kinds of footwear, leather goods, and import-sensitive electronic, steel, and glass products.

Competitive need limits: In order to give some competitive advantage to countries that are relatively new and small suppliers of a particular product, the law specifies two automatic limits on GSP product benefits. The President must withdraw eligibility on imports of a specific product from a beneficiary if, during the preceding calendar year, the country supplied over 50% of total US imports of that product or more than a certain dollar figure ($63.8 million in 1984). Thus, imports that already are highly competitive in the US market lose the extra benefit of GSP, and GSP imports from newer and less developed suppliers are given a greater relative advantage. In addition the 1984 Renewal Act requires a general review of GSP products to be undertaken by 1987. Products found to be sufficiently competitive will be subject to new, lower competitive need limits of 25% of total imports of the product or $25 million (indexed to US GNP). The President can waive the lower limits in return for market-opening measures by the beneficiary country. The limits do not apply to low trade items (in 1985 any product where total US imports are less than $7.6 million). Least developed countries are exempted altogether from these limits.

Annual product changes: In addition to the competitive need limits, other safeguards exist to protect US manufacturers, agricultural producers, and workers in import-sensitive industries. Petitions to add or remove products from GSP are reviewed carefully each year. Moreover, the President's decisions on changes in product eligibility consider any potentially adverse impact on US industries.

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